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via electronic mail and USPS delivery

Ms. Janette Casillas  
Chief Deputy Director  
California Managed Risk Medical Insurance Board  
1000 G Street, Suite 450  
Sacramento, CA 95814

**RE: FINAL REPORT ON THE EVALUATION OF KERN HEALTH SYSTEMS GROUP  
HEALTH PLAN MEDICAL LOSS RATIO SUBMISSION**

Dear Ms. Casillas:

The Department of Managed Health Care (DMHC) hereby provides the Managed Risk Medical Insurance Board (MRMIB), Healthy Families Program (HFP) with the following report regarding the evaluation of Kern Health Systems Group Health Plan's (KHS) HFP loss ratio submission for the period July 1, 2007 through June 30, 2008. This report outlines the project objectives, methodology, and results.

- I Objectives: The purpose of the loss ratio evaluation was to evaluate the underlying payments supporting the amount reported as benefits provided to HFP subscribers and reported by KHS.

As part of this evaluation, DMHC performed the following:

- A Determined whether 100% of the children who received services paid by KHS were enrolled in the HFP at the time the services or capitated coverage were provided.
- B Summarized the total capitation and benefit payments within the detailed data provided by KHS and compared the total payments to the amount reported on Schedule 6 submitted by KHS.
- C Summarized the total payments made by KHS for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by KHS on Schedule 6.

To achieve the objectives outlined above, DMHC performed data analysis on information provided by MRMIB and KHS and corresponded with management personnel at KHS. Primary contact at KHS was Dave Shaffer, Chief Financial Officer; Clayton Carlos, Chief Compliance Officer; and Sheila Vogel, AIS Compliance Coordinator.

## II Methodology

### **A Determined whether 100% of the children who received services paid by KHS were enrolled in the HFP at the time the services were provided.**

- 1 DMHC obtained electronic files containing payments made for HFP subscribers. Additionally, the Department obtained electronic files from MRMIB of all children eligible for whom payments were made for benefits as a KHS subscriber during the period of July 1, 2007 through June 30, 2008.
- 2 Using the two files, DMHC compared the Client Index Number (CIN) and Date of Service on KHS files to determine if there were any payments made by KHS for subscribers that were not eligible for benefits according to the eligibility file received from MRMIB.

There were no material discrepancies noted in payments for ineligible members.

### **B Summarized the total benefit payments within the detailed data provided by KHS and compared the total payments to the amount reported on Schedule 6 submitted by KHS.**

Using electronic files and paper documentation received from KHS in Section II above, and KHS Schedule 6 loss ratio submission provided by MRMIB, DMHC compared the total of the payments on the electronic files and paper documentation to the data reported on Schedule 6.

There were no material discrepancies noted in comparing the database information from KHS and the amounts reported as medical expense on the Schedule 6.

### **C Summarized the total payments made by KHS for the HFP subscriber, and based on the steps above, recalculated the loss ratio and compared it to the loss ratio submitted by KHS on Schedule 6.**

There were no material discrepancies noted in examination under items A and B. The Schedule 6 is accepted as reported.

## III Summary of Findings

- A The following adjustment areas were noted during the examination, but due to materiality guidelines established for the audit the adjustments were not proposed as corrections to the Schedule 6 review.

Issue No	Account	Issue	Amount
1	Subscriber Months	KHS reported 2,806 less subscriber months than the data provided by MAXIMUS. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	2,806

2	Premium Payments from the State	KHS reported \$145.93 more premium payments than the data provided by MAXIMUS. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$146
3	Inpatient Service – Per Diem	KHS reported \$16,197 less inpatient services – per diem than its claims data extract support. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$16,197
4	Primary Professional Services – Noncapitated	KHS reported \$1,407 less primary professional services – noncapitated than its claims data extract support. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$1,407
5	Other Medical Professional Services – Noncapitated	KHS reported \$2,484 more other medical professional services – noncapitated than its claims data extract support. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$2,484
6	Noncontracted Emergency Room and Out-of-Area Expenses, not including POS	KHS reported \$1,288 more noncontracted emergency room and out-of-area expenses, not including POS than its claims data extract supported. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$1,288
7	Pharmacy Expense	KHS reported \$18 more pharmacy expense than its claims data extract supported. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$18
8	Other Medical Expenses	KHS reported \$15,304 more other medical expenses than its claims data extract supported. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$15,304
9	Aggregate Write-Ins for Other Medical and Hospital Expenses	KHS reported \$355 more aggregate write-ins for other medical hospital expenses than DMHC's exam balance. The discrepancy was considered not material and no further procedures were performed. The account balance was accepted as reported.	\$355

#### IV Limitations


This analysis and report were prepared solely for the purpose of assisting MRMIB in the determination of the accuracy of payments made by KHS on their Schedule 6 Medical Loss Ratio Report. We have not performed an evaluation of the Company's internal controls within the guidelines set forth by the AICPA but have reported to you based upon the procedures performed. Our analysis has not been a detailed examination of all transactions, and cannot be relied upon to disclose errors, irregularities, or illegal acts, including fraud or defalcations that may exist.

Please feel free to call Stephen Babich, DMHC Supervisor with any questions pertaining to this report.

Sincerely,



Evan Lo, Examiner  
Division of Financial Oversight



Stephen Babich, Supervising Examiner  
Division of Financial Oversight

cc: Lan Yan, Federal Compliance Unit, MRMIB